

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2332-02
Bill No.: SB 1
Subject: Taxation and Revenue - Income; Sales and Use
Type: Original
Date: September 10, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$43,940,657	\$77,400,000	\$77,400,000
Total Estimated Net Effect on General Revenue Fund	\$43,940,657	\$77,400,000	\$77,400,000

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Various State Funds	\$1,348,110	\$2,022,165	\$2,022,165
Total Estimated Net Effect on <u>All</u> State Funds	\$1,348,110	\$2,022,165	\$2,022,165

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$1,650,747	\$2,476,121	\$2,476,121

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Public Safety, Division of Water Safety** assume this proposal would not fiscally impact their agency.

Officials of the **Department of Revenue (DOR)** assume the following:

143.225 (Eliminate Withholding Tax Timely Discount): This section deletes a reference to the withholding tax timely filing discount.

143.431 & 143.434 (Combined Reporting): Section 143.431 deletes references to consolidated returns, which will be replaced with combined reporting.

Section 143.434 requires companies defined as a unitary group to file a waters edge combined report, which combines profits from all related subsidiaries of that unitary group before determining what portion of their profits are taxable in Missouri. It also authorizes affiliated groups to elect to file a combined report.

144.190 (Refunds to Purchasers): This section prohibits retailers from obtaining refunds of sales and use taxes without crediting the original purchasers, except for over-collections of less than \$1,000 to be refunded without the higher burden of returning the funds to the purchaser. The

ASSUMPTION (continued)

\$1,000 threshold is an aggregate sum over a five-year period. A retailer, upon submission of an approved plan by the Director of the Department of Revenue, may offer fixed value coupons to customers to satisfy the distribution of the over-collections.

306.016 (Yacht Tax): This section eliminates the in-lieu tax on certain large boats or vessels documented with the U. S. Coast Guard. These boats and vessels will be subject to state and local sales and use taxes.

Administrative Impact:

143.225 (Eliminate Withholding Tax Timely Discount): Legislation indicates that the compensation deduction will no longer be available after the 1st day of the month following passage of this legislation. This could be in effect October 1, 2003. Notification letters will have to be mailed to 125,000 employer withholding accounts. Postage will be needed in the amount of \$46,250.

143.431 & 143.434 (Combined Reporting): The Division of Taxation will need to modify the current tax forms. Corporate mainframe programming will be necessary to allow for this method of reporting, however, the cost for programming will be minimal. Notification letters will also need to be issued to the 75,000 Missouri corporations. Postage for these notifications will be \$27,750.

144.190 (Refunds to Purchasers): Taxation will require the seller to provide names of its customers and sample invoices showing customers actually paid the tax. Taxation may need to establish a tracking system for the \$1,000 threshold for 5 years. The amount of this tracking system is unknown at this time. Any funding needed for the tracking system will be requested during the normal budget process.

306.016 (Yacht Tax): The Division of Motor Vehicle will need \$5,743 for programming and procedural revisions.

ASSUMPTION (continued)

Revenue Impact:

The following is the estimated revenue impact for each provision:

(In millions of dollars)	FY 2004	FY 2005
Eliminate timely filing discount for withholding	12.3	18.4
Combined Reporting	23.0	46.0
Refunds to purchasers	6.7	10.0
Yacht Tax (completely eliminate)	<u>2.0</u>	<u>3.0</u>
Subtotal	44.0	77.4

Oversight reduced the amount requested by DOR for postage to \$53,600 to reflect the cost at the current bulk rate.

Officials of the **Office of Administration, Budget and Planning (BAP)** assume this proposal should not result in additional costs or savings to BAP. The proposed legislation will impact both General Revenue and Total State Revenue. BAP defers to DOR's estimates.

Officials from the **Secretary of State (SOS)** assume the bill changes several tax provisions. Based on experience with other divisions the rules, regulations and forms issued by the Department of Revenue could require approximately 24 pages in the Code of State Regulations. For any given rule, roughly one-half again as many pages are published in the Missouri Register as are published in the Code because of cost statements, fiscal notes and notices that are not published in the Code. The estimated cost of a page in the Missouri Register is \$23. The estimated cost of a page in the Code of State Regulations is \$27. SOS estimates the cost at \$1,476 for FY04. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded, and withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

ASSUMPTION (continued)

Oversight assumes this proposal would not be effective until the first day of October for sales tax issues and would require a one month lag for collections. **Oversight** assumes this proposal would be effective for income tax issues for the current tax year.

This proposal would result in an increase in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (8 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Income - General Revenue</u>			
Eliminate timely filing discount on withholding tax	\$12,300,000	\$18,400,000	\$18,400,000
Combined reporting	\$23,000,000	\$46,000,000	\$46,000,000
Sales tax refunds to purchasers	\$6,700,000	\$10,000,000	\$10,000,000
Close yacht tax loophole	<u>\$3,301,495</u>	<u>\$4,952,242</u>	<u>\$4,952,242</u>
Total Income - GR	\$45,301,495	\$79,352,242	\$79,352,242
<u>Cost - Dept. of Revenue</u>			
Postage	(\$53,600)	\$0	\$0
Programming (Section 306.016)	<u>(\$5,743)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	(\$59,343)	\$0	\$0
<u>Loss - General Revenue</u>			
Close yacht loophole	<u>(\$1,301,495)</u>	<u>(\$1,952,242)</u>	<u>(\$1,952,242)</u>
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$43,940,657</u>	<u>\$77,400,000</u>	<u>\$77,400,000</u>

<u>FISCAL IMPACT - State Government</u>	FY 2004 (8 Mo.)	FY 2005	FY 2006
<u>Income - School District Trust Fund</u>			
Elimination of sales tax exception for Coast Guard registered vessels	\$1,100,498	\$1,650,747	\$1,650,747

<u>FISCAL IMPACT - State Government</u>	FY 2004 (8 Mo.)	FY 2005	FY 2006
<u>Income - Conservation Fund</u>			
Elimination of sales tax exception for Coast Guard registered vessels	\$137,562	\$206,343	\$206,343
<u>Income - Parks and Soil Fund</u>			
Elimination of sales tax exception for Coast Guard registered vessels	<u>\$110,050</u>	<u>\$165,075</u>	<u>\$165,075</u>
ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS	<u>\$1,348,110</u>	<u>\$2,022,165</u>	<u>\$2,022,165</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (8 Mo.)	FY 2005	FY 2006
LOCAL GOVERNMENT			
<u>Income - Cities/Counties</u>			
Elimination of sales tax exception for Coast Guard registered vessels	<u>\$1,650,747</u>	<u>\$2,476,121</u>	<u>\$2,476,121</u>
ESTIMATED NET EFFECT ON LOCAL FUNDS	<u>\$1,650,747</u>	<u>\$2,476,121</u>	<u>\$2,476,121</u>

FISCAL IMPACT - Small Business

Small businesses could be expected to have an impact as a result of this proposal.

DESCRIPTION

This proposal makes various modifications to Missouri taxes. The proposal:

- (1) Eliminates the timely filing discount for employers who withhold their employees' income tax;

DESCRIPTION (continued)

(2) Modifies the way losses and operating expenses are deducted among parties for various types of property, including intellectual property. Minimum standards are established regarding what connections among various corporate entities constitute related parties and affiliated groups for multi-state corporate income tax purposes. Under this provision, the entire profit of a unitary group will be aggregated and then divided among the members of the group. This allocation will be based upon the relative incomes of the members, without regard to intra-group transfers of these certain targeted operating expenses ("Geoffrey" scenario);

(3) Prohibits retailers from obtaining refunds of sales and use taxes without crediting the original purchasers. In the case of over-collections of less than \$1,000, such over-collections may be refunded without the higher burden of returning the funds to the purchaser. The \$1,000 threshold is an aggregate sum over a five-year period. In the alternative, a retailer, upon submission of an approved plan by the Director of the Department of Revenue, may offer fixed value coupons to customers to satisfy the distribution of the over-collections;

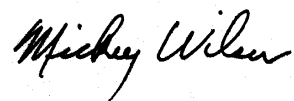
(4) Eliminates the payment in-lieu of tax on certain large boats or vessels documented with the U. S. Coast Guard. The proposal subjects these boats and vessels to state and local sales and use taxes.

The proposal has an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
 Budget and Planning
Secretary of State
Department of Public Safety
 Division of Water Safety



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